A show of hands

Summary
- Investor stewardship is rising up the agenda, with investors focused on areas within ESG.
- On climate, investors this season are pushing net-zero targets and the use of plastic packaging.
- On the social and governance side, diversity is a big topic, along with remuneration and cybersecurity.
- The Covid-19 pandemic has had an impact on what's important to investors, with more focus now on employees and the workforce.
- There is more to be done to align asset manager votes with the voting preferences of investors, such as pension funds.

With 2022's AGM season now underway, Natalie Tuck looks at the key issues important to investors this year

If you pay a visit to any asset managers' website you will come across its stewardship policy setting out how it holds its investee companies to account. Such a policy is an essential part of a modern-day asset manager, as the subject has risen up the agenda for its clients, such as pension funds.

In the UK, pension funds are encouraged to become signatories of the Financial Reporting Council's UK Stewardship Code, which was updated in 2020. Many asset managers are also signatories of this code, which includes guidelines on voting at AGMs, a key part of stewardship.

For example, asset owners should disclose their voting policy, including any house policies and the extent to which funds set their own policies and provide a link to their voting records, including votes withheld if applicable – demonstrating the importance of transparency in this area. With this in mind and the 2022 AGM season now upon us, what are they key issues that asset owners will be voting on this season?

The 'E' in ESG

When it comes to environmental, social and governance (ESG) factors, the first, environmental, is often the most talked about, so it is perhaps no surprise that it is a focal point for asset owners this AGM season.

On this, Aegon Asset Management head of ESG, Miranda Beacham, says: "The whole spectrum of ESG issues is important globally – UK investors and pension funds are possibly more vocal about it as the industry has been thriving here for decades."

A current key trend in this area is the goal to become net zero and Beacham points out that a growing number of companies are submitting climate plans to a vote. She adds that although many companies are aligning with net zero, they will have to provide clarity on how this will be achieved, "rather than simply a vague assurance that it will be reached at some point".

Agreeing, AXA IM head of RI coordination and governance, Clémence Humeau, says: "Climate change is increasingly on the agenda of AGMs with a growing number of companies submitting an advisory vote on their transition plans.

"We will assess the consistency of these plans against companies' climate strategy and will ask them to report on the intermediary achievement of the objectives during the AGMs. Moreover, our new policy's key focus is ensuring companies in climate exposed sectors have a net zero emission strategy, with short, mid- and long-term carbon emissions reduction targets."

According to Tumelo CEO and co-founder, Georgia Stewart, proposals on climate are up 42 per cent this year compared with 2021. Tumelo provides a platform for pension fund members to have their say on key issues at AGM season, and Stewart says that members are "firmly in favour of pro-environmental proposals".

All but two of the proposals on Tumelo's platform had more than 80 per cent voting in support (with the overall range of support being 71-100 per cent). For example, a vote on whether 'Kroger should report on its plastic packaging' had 94 per cent support; this was the environmental proposal with the most significant number of votes. The vote on whether 'DuPont should report on its plastic pollution' achieved 100 per cent support.

"Clearly, within E, plastic pollution is an emotive theme that investors are ready to rally to support," Stewart says.

Social and Governance

On the 'S' and 'G' side, Stewart says that investors are in favour of human rights proposals this season. "All had more than 70 per cent voting in support of the proposal, and all but two had more than 80 per cent. For example, should 'Apple publish a forced labour report' had 94 per cent support from investors on Tumelo's platform; this was the human rights proposal with the greatest votes."

In addition to this, Invesco global proxy governance and voting manager, Zoje Vataj, says that diversity, equity and inclusion (DEI) at the board level and in the workforce will continue to be a focus. She explains that investors are keen to see boards have a more rigorous process around board composition and refreshment.

"Through engagement, investors are seeking to better understand the skills and background of board members and how companies are thinking about future-proofing in terms of recruitment," she says.

Vataj also highlights executive pay as another important area. For example, in the US, because of lower support levels or failed say-on-pay proposals, Invesco expects to see more disclosure on actions being taken to address failed votes. Vataj also notes that across many European countries scrutiny of remuneration practices has increased as a result of discretionary adjustments to pay outcomes or one-off bonuses.

This is an area that is also proving popular with pension fund investors, according to Stewart: "There is a wide range of opinions on 'say on pay,' typically management proposals to approve CEO pay. Approval from investors ranges from 7-81 per cent. Some proposals receive support of around 50 per cent – one or two votes, either way, would tilt the balance. For example, 'will you approve Netflix's executive pay plan' received 47 per cent support."

One of the reasons for the focus on pay, says Beacham, is the impact of the Covid-19 pandemic: "Behaviours towards remuneration have been a key area of the pandemic. Particularly, those that have behaved responsibly and those that appear to have been effectively in it for themselves.

"Interesting this season is the bonus payouts – targets were often set at a time of poor visibility, and in hindsight often lacked sufficient challenge. The more responsible companies upped target ranges when it became apparent that they had been set with insufficient challenge. Some have exercised discretion and reduced outcomes."

Another impact of the pandemic, Vataj says, is that it has put workforce issues front and centre.

"Investors are keen to understand how companies are managing risks posed to their employees and broader operations which can impact voting on shareholder proposals and potentially even director elections," she says, adding: "The pandemic-induced 'great resignation' forced companies to focus on recruitment and retention."

Relating directly to the pandemic itself, Stewart notes that healthcare proposals have become important to investors. At the end of April shareholders of three big drug companies – Johnson & Johnson, Moderna and Pfizer – voted on resolutions filed by Oxfam that sought to widen access to the Covid-19 vaccine. The outcome of this saw 24 per cent of Moderna shareholders support the resolution and 27 per cent of Pfizer shareholders gave support. At the time of writing the Johnson & Johnson result had not been published.

Russian invasion of Ukraine

The invasion of Ukraine by Russia earlier this year saw immediate action taken by investors to remove Russian assets from their portfolios. However, the invasion will still be on investors' minds this AGM season.

Stewart says: "The whole world is watching the situation in Ukraine, and investors are becoming increasingly conscious of the part their money is playing. Investors want to know more about where their money is invested, what those companies are doing and where they are operating. Hence, we have seen companies like McDonald's, Cola and Unilever under pressure to pull their operations out of Russia."

Furthermore, Beacham notes that the biggest governance topic "racing up the risks agenda is cyber security, in light of the events in Russia/Ukraine".

"All investors will have already screened their holdings for any exposure whether directly or indirectly. Sanctions mean it will be difficult to exit these companies or indeed use any voting actions. So, most activity will be focused on the indirect exposure through company operations in the region. It is early days yet and difficult for companies to navigate the best course of action," she says.

Influence

Another important aspect of AGM season is how much influence investors, primarily pension funds, have on companies.

While Beacham notes that "it's in everyone's best interests to have their client wishes central to their thinking" she says that currently it is "difficult to give pension funds in pooled vehicles an active say during AGM season".

"However, through consultation with our clients and understanding their priorities before AGM season, we can be sure to take these into account when making voting decisions. Clear disclosure and follow up conversations enable those clients to hold asset managers to account for their actions."

Furthermore, Humeau adds: "We do make use of the voting information services of proxy advisers, their research being helpful to augment knowledge of companies and resolutions at forthcoming general meetings worldwide. However, all our voting decisions are based on our own corporate governance and voting policy. We will therefore often differ from service providers, especially in cases where our voting guidelines are stricter, or when engagement and dialogue with companies have provided us with additional insights in the specificities of the company's business."

This aligns with Stewart's response, who says that although the picture is improving, there is often misalignment between the wishes of pension funds/providers and how the investment managers vote.

"We also regularly see asset managers voting in opposing directions on behalf of one scheme, effectively cancelling out any influence an underlying investor might have at all. Asset managers working on behalf of one of our schemes voted in opposition on 65 per cent of shareholder proposals."

Despite this, she is positive, with evidence suggesting that investors and trustees can play a role in changing asset manager behaviours. "For example, a vote on Kroger in 2020 received 93 per cent support from Tumelo investors but only 60 per cent from our asset manager partners.

"A similar ballot at Kroger in 2021 won 95 per cent support from Tumelo voters but, this time got 83 per cent support from our asset manager partners. We have seen a 40-50 per cent increase in alignment with member voting on key ESG proposals between 2020 and 2021 AGM seasons for some asset managers.

"Many more shareholder proposals were passed last year relative to the year before as both pension funds and their investment managers step up and drive good stewardship."

Written by Natalie Tuck

Ones to watch

Tumelo CEO and co-founder, Georgia Stewart, details some of the important AGMs to watch out for this season

Some of the most important AGMs that investors will be voting on this season include Meta, Amazon and Alphabet.

In May, investors will be voting on whether Meta should explore the potential risks of the Metaverse and seek shareholder approval. The shareholder who put this proposal forward to the AGM feels strongly that Meta betting its future on the metaverse will generate dystopian downsides. They also feel that they are dedicating significant resources to this without fully understanding the potential risks, putting their investment into the company at risk too. Meta, on the other hand, recommends voting against this proposal because they are committing to building features that will create economic opportunity, keep people safe, protect people's privacy and be inclusive for all. They plan on collaborating with policymakers and experts to build the Metaverse responsibly and say they are already funding research to help achieve that goal.

Investors will also be voting on whether Amazon should explore how it can reduce its use of plastic. Shareholders argue that Amazon is believed to be one of the largest corporate users of difficult-to-recycle flexible plastic packaging, with an estimated £465 million generated in 2019, yet they do not currently disclose how much plastic they use and are falling behind peer companies in their commitments. They are also facing legislation that could make them pay US $100 billion annually to manage their waste. However, Amazon state that these estimates are seriously flawed and overestimate their usage by more than 300 per cent. Given their current efforts into reducing plastic waste, they recommend investors vote against this report.

The AGM for Alphabet (Google's company) will be another important one this season as they vote on Alphabet reporting whether its lobbying activities support its climate commitments. Alphabet has stated its support for the Paris Agreement, which aims to limit global warming to 1.5 degrees Celsius, however, shareholders are concerned that Alphabet does not share how it ensures its lobbying practices align with those aims. They are particularly concerned that Alphabet could be giving money to third-party lobbying organisations that are impeding global emissions reductions. However, Alphabet thinks this report is unnecessary as they already publish extension lobbying disclosures which demonstrate their consistent support for strong climate policies.